



AUDIT

OF

UNDP ISLAMIC REPUBLIC OF IRAN

GRANTS FROM THE GLOBAL FUND TO FIGHT
AIDS, TUBERCULOSIS AND MALARIA

Report No. 1195
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Report on the audit of UNDP Islamic Republic of Iran Grants from the Global Fund to Fight AIDS, Tuberculosis and Malaria Executive Summary

From 11 to 26 August 2013, the Office of Audit and Investigations (OAI) conducted an audit of three grants from the Global Fund to Fight AIDS, Tuberculosis and Malaria (Global Fund), Project Nos. 73329 [HIV], 80152 [Malaria], and 77633 [TB]) and managed by the UNDP Country Office in the Islamic Republic of Iran (the Office) as the Principal Recipient. These grants were managed under the Global Fund's Additional Safeguard Policy.¹ The audit covered all Global Fund-related activities of the Office during the period from 1 January to 31 December 2012. During the period reviewed, the Office recorded Global Fund-related expenditures totalling \$12.9 million. The last audit of the Office's Global Fund-related activities was conducted by OAI in 2012.

The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*. These Standards require that OAI plan and perform the audit to obtain reasonable assurance on the adequacy and effectiveness of the governance, risk management and control processes. The audit includes reviewing and analysing, on a test basis, information that provides the basis for the conclusions and audit results.

Audit rating

OAI assessed the Office's management of Global Fund grants as **partially satisfactory**, which means "Internal controls, governance and risk management processes were generally established and functioning, but needed improvement. One or several issues were identified that may negatively affect the achievement of the objectives of the audited entity." The main reasons for the rating were due to weaknesses in programme management, Sub-recipient management, and procurement of other goods and services. Ratings per audit area and sub-areas are summarized below:

Audit Areas	Not Assessed/ Not Applicable	Unsatisfactory	Partially Satisfactory	Satisfactory
1. Governance and strategic management				
1.1 Organizational structure	Satisfactory			
1.2 Staffing	Satisfactory			
1.3 Capacity development and exit strategy	Satisfactory			
2. Programme management				
2.1 Project approval and implementation	Partially Satisfactory			
2.2 Monitoring and evaluation	Partially Satisfactory			
2.3 Grant closure	Not Assessed			
3. Sub-recipient management				

¹ The Additional Safeguard Policy is a range of tools established by the Global Fund as a result of its risk management processes.

3.1	Selection, assessment and contracting	Not Applicable		
3.2	Funding	Partially Satisfactory		
3.3	Reporting	Satisfactory		
3.4	Oversight and monitoring	Satisfactory		
4.	Procurement and supply management			
4.1	Quantification and forecasting	Satisfactory		
4.2	Procurement of health products	Satisfactory		
4.3	Quality assurance of health products	Satisfactory		
4.4	Procurement of other goods and services	Partially Satisfactory		
4.5	Supply management (inventory, warehousing and distribution)	Not Assessed		
4.6	Asset management	Satisfactory		
4.7	Individual contractors	Satisfactory		
5.	Financial management			
5.1	Revenue and accounts receivable	Satisfactory		
5.2	Expenditures	Satisfactory		
5.3	Reporting to the Global Fund	Satisfactory		

Key issues and recommendations

The audit raised 4 issues and resulted in 4 recommendations, of which 3 (75 percent) were ranked high (critical) priority, meaning “Prompt action is required to ensure that UNDP is not exposed to high risks. Failure to take action could result in major negative consequences for UNDP and may affect the organization at the global level.”

The high priority recommendations are as follows:

Project approval and implementation (Issue 1)	<u>Inadequate oversight of service contract holders.</u> The Office hired 32 service contract holders who were assigned to work at the offices of Sub-recipients and/or Sub-sub-recipients, and were reporting directly to these recipients instead of the Office. While the Office paid for their remuneration, they had limited control over the management and performance of these service contract holders. OAI recommends that the Office seek advice from the Office of Human Resources on the appropriate type of contract to use when service contract holders do not report directly to the UNDP Office. Considerations should include a direct agreement between the service contract holders and the Sub-recipient or Sub-sub-recipient.
Funding (Issue 3)	<u>Delays in settlement of claims and processing of payments to Implementing Partners.</u> OAI noted that the time taken by the Sub-recipient and the Office to review NGO claims and payments varied between 14 to 88 days. The time taken by the Sub-sub-recipient to process the claims was not available. The Office explained that the delays were mainly due to implementation of the new payment modality and the exchanges between the Office and the Sub-recipients throughout the reporting process to ensure the completeness of the supporting documents. OAI also noted other reasons for the delay, such as changes in claim submissions, and not having payment processes and procedures in place for the review of claims. OAI recommends that the Office establish procedures for the submission of NGO claims to ensure processing of the payments of the claims efficiently and promptly. This should include: (a) clarifying the supporting

documents required for claims processing and the timelines for review by the Sub-recipient and the Sub-sub-recipient; (b) exploring the feasibility of providing advances using a payment scheme to offset delays; and (c) establishing procedures so that the Sub-sub-recipient and Sub-recipient can promptly follow up and inform the NGOs if their claims are not complete.

Procurement of
other goods and
services
(Issue 4)

Wasteful expenditure due to delays in taking action. The customs clearance of 27 imported vehicles valued at \$700,000 took more than one year during which alternative transportation arrangements had to be made resulting in wasteful expenditure. Further, the Office procured 13 centrifuges (valued at \$100,000) that were delivered in March 2011. One year later, in May 2012, the Office became aware of defects in the centrifuges and subsequently informed the vendor. The centrifuges were returned to the vendor for repair in July 2013, more than two years after delivery, and were yet to be received back. OAI recommends that the Office ensure that the items procured are put to use promptly. This should include: (a) learning from the lessons in the past to avoid similar delays in getting government clearance in the future; (b) ensuring prompt inspection of all delivered products; and (c) following up with the centrifuge vendor for the return of the equipment within the deadline.

The implementation status of previous Global Fund audit recommendations (Report No. 1080, 9 May 2013) was also validated. Of the 6 recommendations, 5 were fully implemented and 1 was in progress.

Management comments and action plan

The Resident Representative accepted all four recommendations and is in the process of implementing them.



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